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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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January 30, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY REGIONAL PARK AND
OPEN SPACE DISTRICT FOR THE YEAR ENDED JUNE 30, 2002**

Pursuant to Government Code Section 26909, the financial statements of the Los Angeles County Regional Park and Open Space District have been audited for the year ended June 30, 2002. We contracted with Conrad and Associates, L.L.P., independent Certified Public Accountants, to conduct the audit.

The attached reports conclude that the financial statements are presented fairly in conformance with generally accepted accounting principles and State regulations governing special districts. The auditors noted two areas where internal controls need to be strengthened. These areas are discussed in the attached report. The District has agreed to take the recommended corrective action.

JTM:DR:JS:EB

Attachments

c: David E. Janssen, Chief Administrative Officer
Tim Gallagher, Director, Department of Parks and Recreation
Curt Robertson, Administrator, Regional Park and Open Space District
Violet Varona-Lukens, Executive Officer
Public Information Officer
Audit Committee Members

LOS ANGELES COUNTY REGIONAL PARK
AND OPEN SPACE DISTRICT

Financial Statements and
Supplemental Data

Year Ended June 30, 2002

(With Independent Auditors' Report Thereon)

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Financial Statements

Year Ended June 30, 2002

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis (Required Supplementary Information) | 3 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements: | |
| Balance Sheet | 11 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets | 12 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 13 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 14 |
| Notes to Financial Statements | 15 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule: | |
| General Fund | 33 |
| Notes to Required Supplementary Information | 34 |
| Other Supplementary Information: | |
| Budgetary Comparison Schedule: | |
| Debt Service Fund | 36 |

Board of Supervisors
Los Angeles County Regional Park
and Open Space District
Los Angeles, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Los Angeles County Regional Park and Open Space District (the "District") as of and for the year ended June 30, 2002, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Los Angeles County Regional Park and Open Space District as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America and State regulations governing special districts.

As discussed further in the notes to the financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2002.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* and *Required Supplementary Information* are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Supervisors
Los Angeles County Regional Park
and Open Space District
Page 2 of 2

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

November 19, 2002

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2002

Management's discussion and analysis of the Los Angeles County Regional Park and Open Space District (the District) provides a narrative overview of the District's financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the accompanying financial statements, footnotes, and supplementary information.

In June 1999, the Governmental Accounting Standards Board (GASB), which sets the financial reporting rules for all State and Local Governments, established a new framework for financial reports known as GASB 34. As required, the District is adopting the reporting guidelines established by GASB 34 for its financial statements as of June 30, 2002.

The changes to the financial statements in the government-wide section now provide reporting that is similar to private sector companies by showing financial statements with a "Net Assets" bottom line approach. However, government agencies are mandated to account for certain resources and activities separately, thereby necessitating a fund by fund financial format as shown in the fund based financial statements section. The presentation of these two different types of statements together in one report requires the inclusion of two very sophisticated reconciliations found in Notes 2 (a) and (b) to better assist the reader.

Financial Highlights

- The District recognized approximately \$81 million in assessments on the government-wide Statement of Activities and approximately \$78 million in assessments on the fund based Statement of Revenues, Expenditures and Changes in Fund Balance and \$11.7 million in investment income on both statements during fiscal year 2002.
- The District incurred approximately \$74 million of expenses related to park improvements and \$22 million in interest expense on government-wide as well as fund based statements during fiscal year 2002.
- The District made \$25.7 million in principal reduction payments on its outstanding debt during fiscal year 2002.
- The District had approximately \$352 million in total assets at June 30, 2002, a decrease of approximately \$32 million from the previous year.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

- As more fully explained in the government-wide financial analysis below and in footnote 12 to the financial statements, the government-wide statements show negative net assets of approximately \$83 million at June 30, 2002.

Financial Statement Overview

This annual report consists of a series of financial statements: 1) government-wide financial statements, 2) fund based financial statements, and 3) notes to the financial statements. In addition to the financial statements, this report contains required supplementary information and additional supplementary schedules.

Government-wide financial statements: The government-wide financial statements are designed to provide a broad overview of the District activities and present a longer-term view of the District's finances.

- The Statement of Net Assets presents all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the District is improving or deteriorating.
- The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets (revenues and expenses) are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Accordingly, revenues and expenses are reported in this statement for items that will result in cash flows in future fiscal periods (e.g. uncollected assessment revenues, and accrued but unpaid interest expenses).

The government-wide financial statements can be found on pages 9-10 of this report.

Fund based financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the District are Governmental fund types.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

- **Governmental Funds** – All of the District's activities are reported in governmental funds. These funds are reported using modified accrual accounting, which measures, cash, and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed view of the District's operations. Governmental fund information helps to determine the amounts of financial resources used to finance the District's programs.

Net asset/net equity differences between the government-wide and fund based statements are highlighted on page 12 and are primarily the result of the inclusion of bonds payable and accrued interest on bonds payable in the government-wide liabilities.

The difference between the change in net assets/fund balances on the government-wide versus fund based statements is highlighted on page 14 and is primarily the result of the expensing the repayment of bond principal in the fund based statements.

Notes to the Financial Statements: The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund based financial statements.

Government-wide Financial Analysis

Our government-wide analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) for the District's governmental activities.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

Table 1
Net Assets
(in Thousands)

| | <u>Governmental Activities</u> |
|----------------------------|--------------------------------|
| Current and other assets | \$ <u>352,324</u> |
| Total assets | 352,324 |
| Long-term debt outstanding | 412,295 |
| Other liabilities | <u>23,181</u> |
| Total liabilities | 435,476 |
| Net assets: | |
| Restricted | 66,124 |
| Unrestricted | <u>(149,276)</u> |
| Total net assets | \$ <u>(83,152)</u> |

GASB Statement 34 requires that the government-wide statements reflect a liability for the \$412.3 million in outstanding bonds issued to finance park improvements, but does not permit the recognition of assets for future assessment revenues that are pledged for the annual debt service payments on the bonds. In addition, amounts distributed to the cities and other eligible entities are expensed by the District. As a result, the Statement of Net Assets shows negative net assets of approximately \$83 million.

Total assets of the District decreased by 8.6% from the prior year to \$352.3 million. Pooled cash and investments and interest receivable decreased by \$31 million and \$2.3 million respectively, and assessments receivable increased slightly by \$0.3 million.

Total liabilities of the District decreased by 5.5% from the prior year to \$435.5 million. Long-term liabilities (bonds payable) decreased by \$25.7 million. Other liabilities (including accounts payable, arbitrage payable, due to other funds, and deferred revenue) increased by \$0.5 million.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

Total net assets decreased \$3.5 million to (\$83.2 million) due to an excess of general government expenses (\$95.9 million in park improvements, bond interest expense, maintenance and administration) over general revenues (\$92.4 million in assessment revenue and investment income).

Table 2
Changes in Net Assets
(in Thousands)

| | <u>Governmental Activities</u> <u>(Summary of Statement of</u> <u>Activities)</u> |
|-----------------------------------|---|
| Revenues | |
| General revenues | |
| Assessment | \$ 80,659 |
| Investment income | <u>11,735</u> |
| Total revenues | 92,394 |
| Expenses | |
| General government | 73,931 |
| Interest expense | <u>21,989</u> |
| Total expenses | <u>95,920</u> |
| Increase (decrease) in net assets | \$ <u>(3,526)</u> |

Fund Based Financial Analysis

The District's governmental funds reported combined fund balances of \$327 million at June 30, 2002, a decrease of \$32.7 million from the previous year. The decrease reflects an excess of expenditures for park improvements, debt service, administration and maintenance (\$122 million) over revenues from charges for services (assessments) and investment income (\$89.3 million).

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

Capital Assets

All park improvement grants are expensed by the District and are capitalized in the agencies receiving the grant funds. Hence, the District has no capital assets.

Debt Management

At June 30, 2002, the District had Bonds Payable of \$412,295,000, the proceeds of which are being used to fund various park improvement projects and a debt service reserve fund. The debt service payments are secured by the District's annual benefit assessment to each assessable parcel as approved by the voters in 1992 and 1996. The District repaid \$25.7 million in bond principal during fiscal year 2002.

Budgets

There were no changes between the District's original and final budget.

In the District's General Fund, the budgeted expenditures included encumbrances of \$161 million reflecting the District's obligations to fund future park improvements. These future expenditures will be funded with additional debt proceeds or assessment revenues (shown as Long-Term Debt Proceeds in the budget). During fiscal year 2002, less park projects were funded than the amount budgeted and no new bonds were issued.

In the District's Debt Service Fund, budgeted debt service exceeded actual debt service by \$28.4 million due to the District's practice of reserving the debt service payment for the following October prior to the end of the fiscal year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the County of Los Angeles, Department of Auditor-Controller, 500 West Temple Street, Los Angeles, CA 90012.

BASIC FINANCIAL STATEMENTS

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Statement of Net Assets

June 30, 2002

(in Thousands)

ASSETS:

| | |
|--------------------------------------|----------------|
| Pooled cash and investments (note 6) | \$ 338,405 |
| Assessments receivable | 10,596 |
| Interest receivable | <u>3,323</u> |
| Total assets | <u>352,324</u> |

LIABILITIES:

| | |
|------------------------------------|----------------|
| Accounts payable | 6,526 |
| Accrued interest payable | 5,417 |
| Arbitrage payable | 4,101 |
| Due to Los Angeles County (note 5) | 7,137 |
| Long-term liabilities (note 7) | |
| Due within one year | 17,560 |
| Due in more than one year | <u>394,735</u> |
| Total liabilities | <u>435,476</u> |

NET ASSETS:

| | |
|----------------------------------|--------------------|
| Restricted Net Assets: (note 12) | |
| Debt service | 66,124 |
| Unrestricted | <u>(149,276)</u> |
| Total net assets | <u>\$ (83,152)</u> |

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Statement of Activities

Year Ended June 30, 2002

(in Thousands)

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---------------------------------|------------------|------------------|----------------------------|--------------------------|--|
| | | Charges for | Operating Contributions | Capital Contributions | Governmental |
| | <u>Expenses</u> | <u>Services</u> | <u>and Grants</u> | <u>and Grants</u> | <u>Activities</u> |
| | | | | | <u>2002</u> |
| Governmental activities: | | | | | |
| General government | \$ 73,931 | - | - | - | (73,931) |
| Interest expense | <u>21,989</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(21,989)</u> |
| Totals | <u>\$ 95,920</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(95,920)</u> |
| | | | | | |
| General revenues: | | | | | |
| Assessment revenue | | | | | 80,659 |
| Investment income | | | | | <u>11,735</u> |
| Total general revenues | | | | | <u>92,394</u> |
| Change in net assets | | | | | (3,526) |
| Net assets at beginning of year | | | | | <u>(79,626)</u> |
| Net assets at end of year | | | | | <u>\$ (83,152)</u> |

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Balance Sheet

Governmental Funds

June 30, 2002

(in Thousands)

| | General | Debt Service | Totals |
|--|-------------------|-----------------|----------------|
| <u>Assets</u> | | | |
| Pooled cash and investments | \$ 272,281 | 66,124 | 338,405 |
| Assessments receivable | 10,596 | - | 10,596 |
| Interest receivable | 2,926 | 397 | 3,323 |
| Total assets | <u>\$ 285,803</u> | <u>66,521</u> | <u>352,324</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 6,526 | - | 6,526 |
| Arbitrage payable | 4,101 | - | 4,101 |
| Due to Los Angeles County | 7,137 | - | 7,137 |
| Deferred revenue | 7,498 | - | 7,498 |
| Total liabilities | <u>25,262</u> | <u>-</u> | <u>25,262</u> |
| Fund balances: | | | |
| Reserved: | | | |
| Encumbrances | 161,234 | | 161,234 |
| Debt Service | | 66,521 | 66,521 |
| Unreserved: | | | |
| Undesignated | 99,307 | - | 99,307 |
| Total fund balances | <u>260,541</u> | <u>66,521</u> | <u>327,062</u> |
| Total liabilities and fund balances | <u>\$ 285,803</u> | <u>66,521</u> | <u>352,324</u> |

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

Governmental Funds

June 30, 2002

(in Thousands)

| | |
|--|------------|
| Fund balance/net assets of governmental activities | \$ 327,062 |
|--|------------|

Amounts reported for governmental activities in the statement of activities
are different because:

| | |
|---|-------|
| Certain revenues that do not provide current financial resources are reported as deferred revenues in the funds. | 7,498 |
|---|-------|

The following long-term liabilities, are not due and payable in the current
period therefore are not reported in the funds.

| | |
|---------------|-----------|
| Bonds Payable | (412,295) |
|---------------|-----------|

| | |
|--|----------------|
| Accrued liabilities in the statement of net assets differ from the amount reported in governmental funds due to accrued interest on Bonds Payable. | <u>(5,417)</u> |
|--|----------------|

| | |
|---------------------------------------|---------------------------|
| Net assets of governmental activities | <u><u>\$ (83,152)</u></u> |
|---------------------------------------|---------------------------|

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2002

(in Thousands)

| | <u>General</u> | <u>Debt Service</u> | <u>Totals</u> |
|--|-------------------|-------------------------|-----------------|
| Revenues: | | | |
| Assessments | \$ 77,588 | - | 77,588 |
| Investment income | <u>10,929</u> | <u>805</u> | <u>11,734</u> |
| Total revenues | <u>88,517</u> | <u>805</u> | <u>89,322</u> |
| Expenditures: | | | |
| Current: | | | |
| Services and supplies | 4,630 | - | 4,630 |
| Park improvements | 69,301 | - | 69,301 |
| Debt service: | | | |
| Principal | - | 25,725 | 25,725 |
| Interest | <u>-</u> | <u>22,310</u> | <u>22,310</u> |
| Total expenditures | <u>73,931</u> | <u>48,035</u> | <u>121,966</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>14,586</u> | <u>(47,230)</u> | <u>(32,644)</u> |
| Other financing sources (uses): | | | |
| Transfers in | 579 | 38,733 | 39,312 |
| Transfers out | <u>(38,733)</u> | <u>(579)</u> | <u>(39,312)</u> |
| Total other financing sources (uses) | <u>(38,154)</u> | <u>38,154</u> | <u>-</u> |
| Net changes in fund balances | (23,568) | (9,076) | (32,644) |
| Fund balances at beginning of year, as restated (note 10) | <u>284,109</u> | <u>75,597</u> | <u>359,706</u> |
| Fund balances at end of year | <u>\$ 260,541</u> | <u>66,521</u> | <u>327,062</u> |

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

Governmental Funds

Year Ended June 30, 2002

(in Thousands)

| | |
|--|--------------------------|
| Net change in fund balances - total governmental funds | \$(32,644) |
| Amounts reported for governmental Statement of Revenues, Expenditures and Changes in Fund Balances differs from the amounts reported in the Statement of Activities because: | |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 3,072 |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net net assets. | 25,725 |
| Accrued interest for Bonds Payable. This is the net change in accrued interest for the current period. | <u>321</u> |
| Change in net assets of governmental activities | <u><u>\$ (3,526)</u></u> |

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

Year ended June 30, 2002

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) History and Organization

The following is a summary of the significant accounting policies of the Los Angeles County Regional Park and Open Space District (the "District"):

General

Proposition A was passed by the voters on November 3, 1992, which provided for the formation of the assessment district "Regional Park and Open Space District" (the "District"). The District is empowered to carry out the objectives of the Landscaping and Lighting Act of 1972. The objectives are to improve the quality of life in the County of Los Angeles through the preservation of beaches, parks, and wildlands; the construction, renovation and improvement of new and existing recreational facilities; and the restoration of rivers, streams, and trails. These powers are exercised through the County of Los Angeles (the "County") Board of Supervisors, which acts as the governing body of the District. Among its duties, it approves the District's budget, determines the District's assessment rates, approves contracts, and determines when to issue bonds authorized by the voters of the District. On November 5, 1996, the voters approved the Safe Neighborhood Parks Proposition 1996, which provided for the District to levy additional assessments and to amend the method of assessments within the District.

Reporting Entity

The District is a component financial reporting unit of the County of Los Angeles, as the governing board of the County also serves as the District's governing board, and the County is financially accountable for the District.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by generally accepted accounting principles ("GAAP"). The District does not have any components units.

The District is included as a component unit in the County financial reporting entity and is included in the County's comprehensive annual financial report for the year ended June 30, 2002.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

Financial reporting is based upon all GASB pronouncements, as well as the FASB Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

Government-wide Financial Statements

Government-wide financial statements display information about the District as a whole. These statements include separate columns for the government and business-type activities of the primary government. The District does not have business-type activities. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they are allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the District.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements (Continued)

Program revenues include charges for services and payments made by parties outside of the reporting District's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program. The District did not have any program revenues for the year then ended.

Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. The District has no non-major funds.

Governmental Fund Types

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that amounts were collected during the reporting period or soon enough

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Types (Continued)

thereafter to be available to finance the expenditures accrued for the reporting period. For this purpose, the District uses an availability period of 60 days for assessment revenues and 1 year for investment income.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the district.

Exchange transactions are recognized as revenues in the period in which they are earned (i.e. the related goods or services are provided). *Locally imposed tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they are imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Types (Continued)

Non-current portions of other long-term receivables are offset by fund balance reserve accounts.

As a result of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as government fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources and then from unrestricted resources.

(c) Major Funds

The major funds of the District are as follows:

General Fund:

The General Fund is available for any authorized purpose and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund:

The Debt Service Fund is used to account for accumulation of resources for, and the payment of, general long-term debt principal and interest.

(d) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investments (Continued)

reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

All cash and investment balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. Each fund's share in this pool is displayed in the accompanying financial statements as pooled *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on fund's average cash and investment balance, as provided by California Government Code Section 53647.

(e) Capital Assets

The District provides funding to other entities, including the County, for purposes of acquiring real property. Title to properties acquired is recorded in the name of the purchasing entity, not the District. Accordingly, there are no capital assets recorded on the statement of net assets.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(a) Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets

"Total fund balances" of the District's governmental funds were \$327,062, which differs from the "net assets" of governmental activities amount of \$(83,152), reported in the Statement of Net Assets. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus of the governmental fund balance sheets. The following adjustments have been made to effect this difference and are further illustrated in the schedule on page 22.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(a) Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets (continued)

Long-term Debt Transactions

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets.

| | |
|---------------|----------------------|
| Bonds payable | <u>\$412,295,000</u> |
|---------------|----------------------|

Accrued Interest

Accrued liabilities in the Statement of Net Assets differ from the amount reported in governmental funds due to accrued interest on bonds payable.

| | |
|------------------------|--------------------|
| Accrued interest added | <u>\$5,417,000</u> |
|------------------------|--------------------|

Deferred Revenue

Governmental funds recognize revenues when they are *measurable and available*. The government-wide statement of activities, however, is *not* subject to this availability criterion. Therefore, amounts related to certain assessments are deferred for the governmental funds but are recognized as revenue for the government-wide financial statements.

| | |
|------------------|--------------------|
| Deferred revenue | <u>\$7,498,000</u> |
|------------------|--------------------|

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once, in the function in which they are allocated.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(a) Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets (continued)

| | Total Governmental Funds | Certain Deferred Revenue | Long-term Debt Transactions | Interest Payable | Reclassification and Eliminations | Statement of Net Assets |
|--|--------------------------------|--------------------------------|-----------------------------------|---------------------|---|-------------------------------|
| ASSETS: | | | | | | |
| Pooled cash and investments | \$ 338,405 | | | | | 338,405 |
| Assessment receivable | 10,596 | | | | | 10,596 |
| Interest receivable | 3,323 | - | - | - | - | 3,323 |
| Total assets | <u>\$ 352,324</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>352,324</u> |
| LIABILITIES AND FUND BALANCES/NET ASSETS: | | | | | | |
| Accounts payable | \$ 6,526 | | | | | 6,526 |
| Accrued interest | - | | | 5,417 | | 5,417 |
| Arbitrage payable | 4,101 | | | | | 4,101 |
| Due to Los Angeles County | 7,137 | | | | | 7,137 |
| Deferred revenue | 7,498 | (7,498) | | | | - |
| Long-term liabilities - due within one year | - | | | | 17,560 | 17,560 |
| Long-term liabilities - non current | - | - | 412,295 | - | (17,560) | 394,735 |
| Total liabilities | <u>25,262</u> | <u>(7,498)</u> | <u>412,295</u> | <u>5,417</u> | <u>-</u> | <u>435,476</u> |
| Fund balances/net assets | <u>327,062</u> | <u>7,498</u> | <u>(412,295)</u> | <u>(5,417)</u> | <u>-</u> | <u>(83,152)</u> |
| Total liabilities and fund balances/net assets | <u>\$ 352,324</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>352,324</u> |

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(b) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities

The “net change in fund balances” for governmental funds was \$(32,644), which differs from the “change in net assets” for governmental activities of \$(3,526), reported in the Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the government funds. The following adjustments are explained below and are illustrated in the schedule on page 25.

Long-term Debt Transactions

Repayment of bond principal is reported as an expenditure in governmental funds operating statement and, therefore, has the effect of reducing fund balance because current financial resources have been used. For the District as a whole, however, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.

| | |
|-------------------------|---------------------|
| Principal payments made | <u>\$25,725,000</u> |
|-------------------------|---------------------|

Accrued Interest

This is the net change in accrued interest for the current period.

| | |
|------------------|------------------|
| Accrued interest | <u>\$321,000</u> |
|------------------|------------------|

Arbitraged Interest

Any liability for arbitrated interest is recorded in the fund incurring the liability and interest income is reduced by the amount of the liability incurred during the year.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)
- (b) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities (continued)

Deferred Revenue

Governmental funds recognize revenues when they are *measurable and available*. The government-wide statement of activities, however, is *not* subject to this availability criterion. Therefore, amounts related to certain assessments are deferred for the governmental funds but are recognized as revenue for the government-wide financial statements.

| | |
|------------------|--------------------|
| Deferred revenue | <u>\$3,072,000</u> |
|------------------|--------------------|

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Any allocation must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once, in the function in which they are allocated. Certain reclassifications are made to convert expenditure classifications in the fund financial statements to those required for the statement of activities.

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LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(b) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities (continued)

| | Total Governmental Funds | Certain Deferred Revenue | Long-term Debt Transactions | Interest Payable | Reclassification and Eliminations | Statement of Net Assets |
|---|--------------------------------|--------------------------------|-----------------------------------|---------------------|---|-------------------------------|
| REVENUES: | | | | | | |
| Assessment revenue | \$ 77,587 | 3,072 | | | | 80,659 |
| Investment income | 11,735 | - | - | - | - | 11,735 |
| Total revenues | 89,322 | 3,072 | - | - | - | 92,394 |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| General government | 73,931 | | | | | 73,931 |
| Debt service: | | | | | | |
| Principal | 25,725 | | (25,725) | | | - |
| Interest | 22,310 | - | - | (321) | - | 21,989 |
| Total expenditures | 121,966 | - | (25,725) | (321) | - | 95,920 |
| Excess (deficiency) of revenues over (under) expenditures | (32,644) | 3,072 | 25,725 | 321 | - | (3,526) |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Transfers in | 39,311,574 | | | | (39,311,574) | - |
| Transfers out | (39,311,574) | - | - | - | 39,311,574 | - |
| Total other financing sources (uses) | - | - | - | - | - | - |
| Net changes in fund balances/ net assets | (32,644) | 3,072 | 25,725 | 321 | - | (3,526) |
| Fund balances/net assets, at beginning of year, as restated | 359,706 | 4,426 | (438,020) | (5,738) | - | (79,626) |
| Fund balances/net assets, at end of year | \$ 327,062 | 7,498 | (412,295) | (5,417) | - | (83,152) |

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

3. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

In accordance with the provisions of Section 2900-29144 of the Government Code of the State of California (the "Government Code"), commonly known as the County Budget Act, a District budget is adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund and Debt Service Fund on a basis of accounting, which is different from generally accepted accounting principles ("GAAP").

For budgetary purposes, encumbrances and other reserves are also recorded as other financing uses at the time they are established. For encumbrances, this occurs at the time contracts or other purchase agreements are entered into. Other reserves are also recognized as other financing uses to indicate that certain assets (such as inventories) are not available for appropriation. Cancellations of encumbrances and other fund balance reserves are recorded as other financing sources for budgetary purposes.

Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.

For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.

Expenditures are controlled on the object level for all District budgets. Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act. There were no excesses of expenditures over the related appropriations within any fund at June 30, 2002.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

3. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS (CONTINUED)

The District's Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types has been prepared on the modified accrual basis of accounting in accordance with GAAP. The Budgetary Comparison Schedule – General Fund and the Budgetary Comparison Schedule – Debt Service have been prepared on the budgetary basis, which is different from GAAP.

The following schedule is a reconciliation of the budgetary and GAAP fund balances as of June 30, 2002 (in thousands):

| | <u>General Fund</u> | <u>Debt Service</u> |
|-----------------------------------|---------------------|---------------------|
| Fund balance – budgetary basis | \$104,221 | 66,495 |
| Reserves and designations | <u>161,234</u> | <u>-</u> |
| Subtotal | 265,455 | 66,495 |
| Adjustments: | | |
| Changes in revenue accruals | <u>(4,914)</u> | <u>26</u> |
| Fund balance – GAAP basis | <u>\$260,541</u> | <u>66,521</u> |

4. BENEFITS ASSESSMENTS

The District's primary revenue source is the assessments which are levied annually on each of the approximately 2.2 million parcels within the District's boundaries. The District, as authorized by the Government Code, levied an assessment on each parcel of real property within the District. The rate and method of apportionment used in levying annual assessments for various categories of property is established in the Engineer's Report for County of Los Angeles Landscaping and Lighting District No. 92-1. The level of each assessment is based on the size and use of each parcel and the resulting benefit each parcel will receive from the proposed projects. The estimation of such benefit is quantified by benefit points, which is based on the 1996 Proposition.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

4. BENEFITS ASSESSMENTS (CONTINUED)

The annual rate of each assessment may not exceed \$14.46 per benefit point. The annual assessment for any parcel will consequently equal the annual rate multiplied by the number of benefit points applicable to each parcel. The assessment may be levied annually for a period of 22 years.

The expenditures of the District that are funded from the proceeds of the annual assessments levied and collected are distributed as follows: a minimum of 80% (but not more than 85%) of the assessments are used for the payment of debt service on bonds, notes and other obligations issued by the District and for the direct capitalized costs incurred on approved projects; 15% of assessments are used for maintenance and servicing of completed projects; and up to 5% of the assessment are used to pay for the District's ongoing administrative expenses.

5. TRANSACTIONS WITH THE COUNTY AND OTHER AGENCIES

The County is responsible for providing all necessary employees to the District for purposes of performing all District functions. Costs related to these employees are billed to the District based upon actual time spent providing District services. Accordingly, the District has no salaries and employee benefit expenditures or supplies inventory. Accrued expenditures in the amount of \$7,137,000 as of June 30, 2002, for services provided by the County and other agencies for reimbursable projects, have been recorded as "Due to Los Angeles County".

6. CASH AND INVESTMENTS

Pooled Cash and Investments

As provided for by the Government Code, cash balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. The District's share of the total pooled cash and investments, included in the accompanying combined balance sheet under "Pooled cash and investments," was \$338,405,189 and represents approximately 2.70% of the total pool.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

6. CASH AND INVESTMENTS (CONTINUED)

Interest earned on pooled investments is deposited monthly based upon the average daily deposit balance during the allocation period. Investment gains and losses are proportionately shared by the entities participating in the pool as an increase or reduction in interest earnings.

Investments

The California Government Code, and the Los Angeles County Treasurer and Tax Collector's investment policy generally authorize the District to invest in obligations of the United States Treasury, federal agencies, certain municipal obligations, asset-backed securities, bankers' acceptance, negotiable certificates of deposit, corporate and depository notes, floating rate notes, commercial paper, money market mutual funds, repurchase agreements and reverse repurchase agreements.

In accordance with the Governmental Accounting Standards Board ("GASB") Statement Number 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", individual investments of the District are categorized separately to give an indication of the level of credit risk assumed by the District at year-end. The defined categories are as follows: Category 1 - investments that are insured or registered or for which the securities are held by the District or its custodial agent, which must be a different institution other than the party through which the District purchased the securities, in the agent's nominee name, with subsidiary records listing the District as the legal owner. Category 2 - uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name (except for those securities that are held by the same department or agent that purchased the securities for the District). Category 3 - uninsured and unregistered investments for which the securities are held by the dealer's agent but not in the District's name. Category 3 also includes all securities held by the broker-dealer agent of the District (the party that purchased the securities for the District) regardless of whether or not the securities are being held in the District's name.

GASB Statement Number 3 exempts participating entities from classifying their pool investments in categories of credit risk. Credit risk information for the entire County Treasurer pool is presented in the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

7. LONG-TERM OBLIGATIONS

On November 1, 1997, the District issued \$510,185,000 in Limited Obligation Improvement Bonds, Series 1997A, with interest rates ranging from 4.2% to 6.0%. The bonds were issued to advance refund the outstanding principal of the Series 1994A Bonds, and for acquisition, restoration, improvement, and preservation of beach, park, wildlife, and open space resources within the District. The bonds are payable from the proceeds of annual assessments levied on parcels within the district boundaries. Interest is payable April 1 and October 1 of each year. Final bonds mature in 2019.

The bond indentures require that the bond reserve be maintained in an amount, which is equal to the maximum amount of principal and interest becoming due in any single future six months period. The maximum amount of principal and interest becoming due in any single future six months period is \$36,854,500. The District has established a reserve account in accordance with the bond indenture. The reserve account has a balance of \$37,516,680 as of June 30, 2002.

A portion of the refunding bond proceeds were used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the refunded bonds are considered defeased and the liabilities for these bonds have been removed from the General Long-Term Debt Account Group. As of June 30, 2002, \$140,895,000 of the defeased 1994 bonds remains outstanding.

The following is a summary of the changes in outstanding bonded indebtedness during the fiscal year ended June 30, 2002:

| <u>Balance at July 1, 2001</u> | <u>Additions 2001-02</u> | <u>Reductions 2001-02</u> | <u>Balance at June 30, 2002</u> | <u>Amount Due Within One Year</u> |
|------------------------------------|------------------------------|-------------------------------|-------------------------------------|---|
| <u>\$438,020,000</u> | <u>-</u> | <u>25,725,000</u> | <u>412,295,000</u> | <u>17,560,000</u> |

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

8. CHANGE IN ACCOUNTING PRINCIPLE

During the fiscal year ended June 30, 2002, the Los Angeles Regional Park and Open Space District implemented GASB Statement No. 34. GASB Statement No. 34 changed the financial reporting model of local governmental units. As a result of GASB Statement No. 34, fund financial statements are required to be presented with a focus on the *major funds* of the local government. Previously, financial reporting for local governments had focused on reporting by *fund type*.

The modified accrual basis of accounting and the current financial resources measurement focus are used in the fund financial statements for governmental funds of the District.

GASB Statement No. 34 also requires the presentation of *government-wide financial statements*, which were previously not required. Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. The economic resources measurement focus requires that all (both current and long-term) assets and liabilities of the District be reported in the government-wide financial statements.

9. CHANGE IN ACCOUNTING ESTIMATE

During the fiscal year ended June 30, 2002, the Los Angeles Regional Park and Open Space District changed its policy for recording assessment revenue accruals from one year to sixty days.

10. RESTATEMENT OF BEGINNING FUND BALANCES

During fiscal year 2001-2002, the District changed its policy for recording assessment revenue accruals from one year to sixty days. The following restatement of beginning fund balance was reflected to show this change in accounting estimate (in thousands):

| | <u>General Fund</u> |
|--|---------------------|
| Beginning fund balance/net assets, as previously reported | \$ 286,957 |
| Adjustments to reflect change in accrual policy (availability period) for certain revenues | <u>(2,848)</u> |
| Beginning fund balance, as restated | <u>\$ 284,109</u> |

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

11. CONTINGENT LIABILITIES

Claims and suits have been filed against the District in the normal course of business. The outcome of these matters is not presently determinable. However, in the opinion of management, the resolution of these matters is not expected to have a significant impact of the financial condition of the District.

There was one particular case filed against the District in January 2000 challenging the District's implementation of the at-risk youth hiring provisions of the 1992 and 1996 propositions. This case was settled in August 2002, in the amount of \$1,000,000. These funds are to be used for future expenditures relating to the employment of at-risk youth.

12. UNRESTRICTED NET ASSETS

GASB Statement No. 34 requires that local governments record in the statement of net assets the local government's liability for debt issued to finance the construction and acquisition of assets to be owned by other parties. GASB Statements No. 33 and 34 do not permit the recognition of assets for future tax increment revenues that are pledged for the annual retirement of bonded debt issuances. The negative equity resulting from the reporting of the District's liability for this debt is required by GASB No. 34 to be reported as unrestricted net assets.

REQUIRED SUPPLEMENTARY INFORMATION

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Budgetary Comparison Schedule
General Fund

Year Ended June 30, 2002

(in Thousands)

| | General Fund | | | Variance - |
|--|--------------------|-----------------|-----------------------------|----------------------------|
| | Original Budget | Final Budget | Actual (Budgetary Basis) | Favorable (Unfavorable) |
| Revenues: | | | | |
| Assessments | \$ 76,980 | 76,980 | 77,359 | 379 |
| Investment income | 13,663 | 13,663 | 11,168 | (2,495) |
| Total revenues | 90,643 | 90,643 | 88,527 | (2,116) |
| Expenditures: | | | | |
| Current-Recreation and cultural services: | | | | |
| Services and supplies | 19,783 | 19,783 | 4,594 | 15,189 |
| Other charges | 329,984 | 329,984 | 74,717 | 255,267 |
| Total expenditures | 349,767 | 349,767 | 79,311 | 270,456 |
| Excess (deficiency) of revenues over (under) expenditures | (259,124) | (259,124) | 9,216 | 268,340 |
| Other financing sources (uses): | | | | |
| Operating transfers from other funds | 96,174 | 95,594 | 81,512 | (14,082) |
| Operating transfers to other funds | (135,790) | (135,790) | (119,667) | 16,123 |
| Long-term debt proceeds | 180,841 | 181,421 | - | (181,421) |
| Appropriation for contingencies | (424) | (424) | - | 424 |
| Changes in reserves and designations | - | - | 5,784 | 5,784 |
| Other financing sources (uses) - net | 140,801 | 140,801 | (32,371) | (173,172) |
| Net change in fund balance | (118,323) | (118,323) | (23,155) | 95,168 |
| Fund balances at beginning of year | 127,376 | 127,376 | 127,376 | - |
| Fund balances at end of year | \$ 9,053 | 9,053 | 104,221 | 95,168 |

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Required Supplementary Information

Year ended June 30, 2002

1. BUDGETS AND BUDGETARY INFORMATION

In accordance with the provisions of Section 2900-29144 of the Government Code of the State of California (the "Government Code"), commonly known as the County Budget Act, a District budget is adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund on a basis of accounting, which is different from generally accepted accounting principles ("GAAP").

For budgetary purposes, encumbrances and other reserves are also recorded as other financing uses at the time they are established. For encumbrances, this occurs at the time contracts or other purchase agreements are entered into. Other reserves are also recognized as other financing uses to indicate that certain assets (such as inventories) are not available for appropriation. Cancellations of encumbrances and other fund balance reserves are recorded as other financing sources for budgetary purposes.

Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible with one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.

For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.

Expenditures are controlled on the object level for all District budgets. Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act. There were no excesses of expenditures over the related appropriations within any fund at June 30, 2002.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Required Supplementary Information

(Continued)

2. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

The District's Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types has been prepared on the modified accrual basis of accounting in accordance with GAAP. The Budgetary Comparison Schedule – General Fund has been prepared on the budgetary basis, which is different from GAAP.

The following schedule is a reconciliation of the budgetary and GAAP fund balances as of June 30, 2002 (in thousands):

| | <u>General Fund</u> |
|-----------------------------------|-------------------------|
| Fund balance – budgetary basis | \$104,221 |
| Reserves and designations | <u>161,234</u> |
| Subtotal | 265,455 |
| Adjustments: | |
| Change in revenue accruals | <u>(4,914)</u> |
| Fund balance – GAAP basis | <u><u>\$260,541</u></u> |

OTHER SUPPLEMENTARY INFORMATION

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Budgetary Comparison Schedule Debt Service Fund

Year Ended June 30, 2002

(in Thousands)

| | Debt Service Fund | | | Variance - Favorable (Unfavorable) |
|--|--------------------|-----------------|-----------------------------|--|
| | Original Budget | Final Budget | Actual (Budgetary Basis) | |
| Revenues: | | | | |
| Investment income | \$ 1,197 | 1,197 | 779 | (418) |
| Total revenues | 1,197 | 1,197 | 779 | (418) |
| Expenditures: | | | | |
| Debt Service | | | | |
| Principal | 25,725 | 25,725 | 25,725 | - |
| Interest | 50,703 | 50,703 | 22,310 | 28,393 |
| Total expenditures | 76,428 | 76,428 | 48,035 | 28,393 |
| Excess (deficiency) of revenues over (under) expenditures | (75,231) | (75,231) | (47,256) | 27,975 |
| Other financing sources (uses): | | | | |
| Operating transfers from other funds | 40,309 | 40,309 | 38,733 | (1,576) |
| Operating transfers to other funds | (580) | (580) | (578) | 2 |
| Appropriation for contingencies | (2,441) | (2,441) | - | 2,441 |
| Changes in reserves and designations | (1) | (1) | (1) | - |
| Other financing sources (uses) - net | 37,287 | 37,287 | 38,154 | 867 |
| Net change in fund balance | (37,944) | (37,944) | (9,102) | 28,842 |
| Fund balances (deficit) at beginning of year | 37,944 | 37,944 | 37,944 | - |
| Fund balances at end of year | \$ - | - | 28,842 | 28,842 |

Board of Supervisors
Los Angeles County Regional Park
and Open Space District
Los Angeles, California

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the Los Angeles County Regional Park and Open Space District (the "District") as of and for the year ended June 30, 2002, and have issued our report thereon dated November 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted other matters, which we have communicated to the management of the District in a separate letter dated November 19, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters, which we have communicated to the management of the District in a separate letter dated November 19, 2002.

Board of Supervisors
Los Angeles County Regional Park
and Open Space District
Page 2 of 2

This report is intended solely for the information and use of the Board of Supervisors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

November 19, 2002

Board of Supervisors
Los Angeles County Regional Park and Open Space District
Los Angeles, California

In planning and performing our audit of the financial statements of the Los Angeles Regional Park and Open Space District (the "District") as of and for the year ended June 30, 2002, we considered its internal control structure and controls over compliance in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structures, nor render an opinion on compliance.

Our consideration of the internal control structure policies and procedures would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities that would be material to the financial statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses or reportable conditions.

However, during our audit, we became aware of other matters that we see as opportunities for strengthening internal controls and operating efficiency. We offer the following recommendations for consideration by the District to strengthen its internal control structure and to ensure compliance government regulations.

(1) Verification of Maintenance and Servicing Costs Claimed for Reimbursement

The Safe Neighborhood Parks Propositions of 1992 and 1996 provide maintenance and servicing funds to eligible agencies to offset increased maintenance costs resulting from Proposition funded projects. The District disbursed approximately \$9 million for maintenance and servicing costs during the fiscal year ended June 30, 2002. During our testing of these costs, we noted certain areas where improvements could be made.

- To adequately administer the maintenance and servicing funds, the District developed a written policy manual entitled "Policy Memorandum – Maintenance and Servicing". This memorandum establishes guidelines for the use of maintenance and servicing funds and procedures for obtaining them. We found the sixteen-page document to be very comprehensive and easy to follow. However, upon further review of this memorandum, we noted that eligible agencies seeking reimbursement for maintenance and servicing costs were not required to submit (or retain) support for expenditures claimed for reimbursement. Requiring eligible agencies to retain supporting documents would help ensure that maintenance and servicing funds are being expended for eligible purposes.

- Some maintenance and servicing are costs funded prior to being incurred, so it may not be practical to require eligible agencies to submit proof of expenditure along with the reimbursement claim. However, additional procedures should be performed to ensure that the maintenance and servicing funds are being used as intended. To provide additional assurance, the District should consider performing selected audits of eligible agencies that received these maintenance and servicing funds.

Recommendation

We recommend that the District consider requiring eligible agencies to retain supporting documentation for maintenance and servicing costs incurred. The District may want to revise the “Policy Memorandum – Maintenance and Servicing” to include the following language: “An eligible agency is responsible for maintaining proof of expenditures for at least five (5) years from the date the expenditure was reimbursed.” The District would also need to adequately communicate this change to the eligible agencies receiving reimbursement for maintenance and servicing costs to ensure compliance with the maintenance and servicing policy.

We also recommend that eligible agencies that received funding for maintenance and servicing costs be subjected to audit. It is the practice of the District to contract with independent accounting firms to perform selected audits of eligible agencies that received Proposition funding for project costs. This is done to provide assurance that eligible agencies are expending Proposition funds in accordance with the requirements of the Proposition. The District should consider expanding the universe of costs (projects) subjected to audit to include not only project costs but also costs incurred by other County departments and costs incurred for maintenance and servicing costs. The audits selected for maintenance and servicing costs could be based on the amount of funds provided to the eligible agencies.

District Response

The District agrees with the findings and will implement the recommendations. The District will notify all recipients of District Maintenance and Servicing Funds that they are responsible for maintaining proof of expenditures for at least five years from the date the expenditures were reimbursed. The District will provide for audits of Maintenance and Servicing Funds along with project cost audits. The District will provide for audits of costs billed to the District Administrative Fund by County departments along with the audit of the annual Financial Statement. The District will review these audits to determine whether it should require proof of expenditures prior to payment of claims.

(2) Proper Use of the Labor Cost Forms

The Proposition A Procedural Guide has established guidelines requiring the submission of certain documentation prior to reimbursement of project costs. The guidelines “*For Work Performed By Applicant’s Own Employees*” require the applicant to submit the following to the District:

A. Payment Request

1. A Payment Request Form signed by person authorized in applicant’s resolution.
2. Project Cost Form.
3. Labor Cost Form.
4. Equipment Cost Form, if applicable.

As Payment Request Forms are submitted, District personnel review the documentation provided to ensure that all items (forms) required by the applicable procedural guide, as noted above, have been submitted. Each of the forms has been developed for a particular type of cost. Project costs need to be summarized on the Projects Cost Form; salary costs need to be summarized on the Labor Cost Form, etc.

During our testing of payment request forms, we noted that several of the Project Cost Forms reviewed included salary costs. The issue was mostly noted for requests received from County departments.

Recommendation

The District needs to ensure that Payment Request Forms submitted for reimbursement comply with the guidelines established in the Proposition A Procedural Guide. Should a request not include the appropriate forms, the requesting agency should be contacted and instructed to complete the appropriate forms before the request is processed for payment. The District may want to take a proactive approach for the County departments that had not complied in prior years and distribute a memorandum informing them of this filing requirement.

District Response

The District agrees with the findings and will implement the recommendations. All District grantees will be notified that the District will not process reimbursements unless the information required is submitted on the proper forms.

Board of Supervisors
Los Angeles Regional Park
and Open Space District
Los Angeles, California
Page 4 of 4

This report is intended solely for the information and use of the Board of Supervisors, District management and the Los Angeles County Auditor-Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

November 19, 2002